RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Sept. 11, 1996 **LETTER 1208**

THE PICTURE: Historically, the two or three months prior to a presidential election have tended to be non-directional or non-trending months. In other words, these are the months where, historically, the market has not done very much in the way of setting major trends.

Why is this? One reason is that traders may be reluctant to do a lot until they see who's elected and which way the political winds are blowing.

A second reason is that in the months prior to a presidential election, for some reason, people tend to feel optimistic -- it's a bit like vacation time. The incumbent politicians are hopeful that they're going to hang on to their seats, while the "outs" are hopeful that they're going to be the new "ins." The public, meanwhile, is buffeted back and forth with confident predictions from both sides, but in the end the public prefers simply to sit on its respective hands, listen to the politicians spout platitudes and promises -- and await the outcome.

The result -- usually trendless, milling-around, "going nowhere" markets. Of course there were a few exceptions such as 1948's violent sell-off prior to Truman's re-election and the erratic 1956 gyrations prior to the re-election of Eisenhower.

Today we have the "Wacky Iraqi" situation (Colin Powell convinced Bush to leave Saddam alone, a colossal mistake), and we have the possibility (probability?) that the Fed could boost rates one-half a percent (as hinted in the September 3 *WSJ*). We also have the upward surge in oil, and the convincing evidence that the economy is heating up.

Add up all the "what ifs" and what have we got? From the stock market standpoint, we have the same situation that I've outlined in the last few Letters. That picture all distills down to two sets of critical levels in the D-J Averages.

The two sets of levels are as follows: on the upside we have the Dow bull market high of **5778.00** and the Transport high of **2296.20.** Now note this carefully -- if BOTH of these Averages rally above those highs, the bull market will be re-confirmed and all will be well, as least for a while. New highs, in other words, would constitute a green light.

On the downside we have the July Dow low of **5346.55** and the comparable Transports low of **1965.73.** Note this just as carefully -- if these two lows are violated, a primary bear market will be signaled. If this occurs, I strongly suggest that you read and re-read the "Investment Position" segment of this and recent Letters.

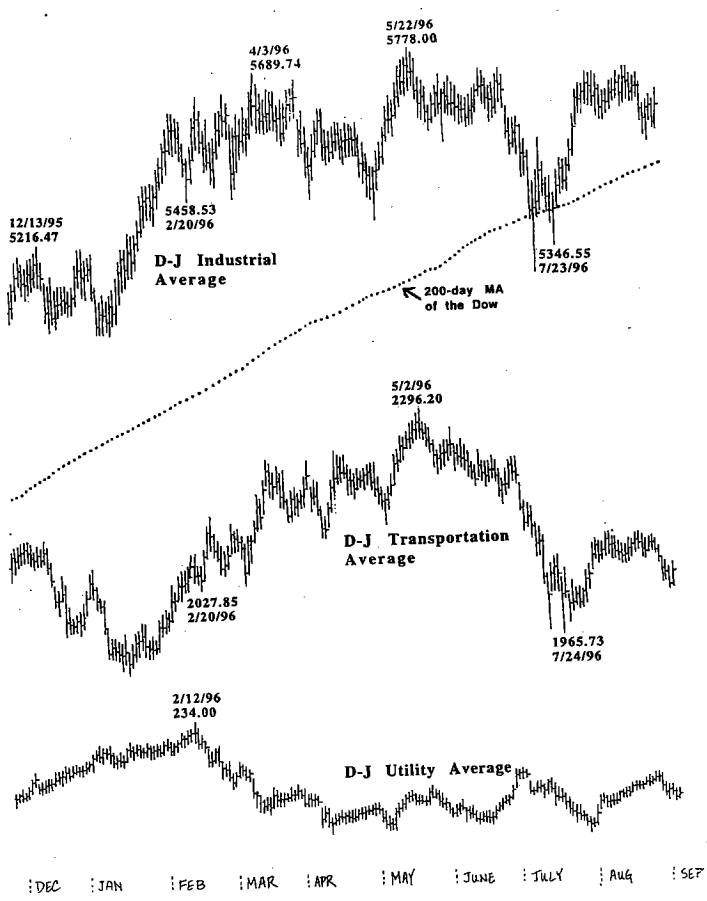
And so we wait. But ultimately, the two D-J Averages, Industrials and Transports, will have to signal either a re-confirmation of the bull market or the start of a bear market. There are no other possibilities.

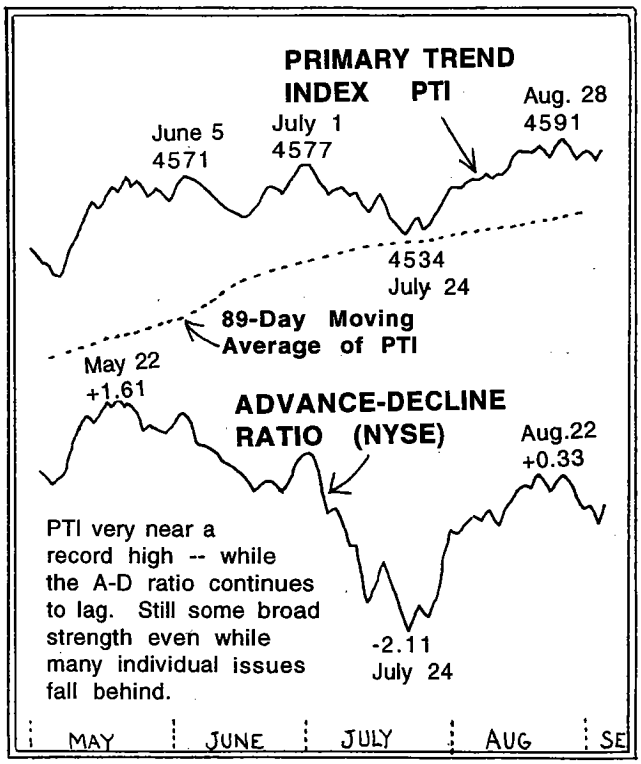
Meanwhile, the rumors, the theories, and the predictions are flying. One widely-followed Wall Street analyst is of the opinion that inflation will heat up in '97 and that, consequently, interest rates will head up sharply and the Dow will drop over 1,000 points. Another highly successful Wall Streeter was interviewed in the Sunday *NY Times,* and this veteran is of the opinion that the best for the stock market has been seen, but at the same time no highly negative events are to be expected. Thus, he believes that the market is fated to fluctuate in a frustrating two or three year trading range.

Aug. 30 DJIA 5616.21; PTI 4579; A-D Ratio -0.17
Sept. 6 DJIA 5659.86; PTI 4586; A-D Ratio -0.12
Dow Yield: 2.24%; Dow Price/Earnings: 17.5
Dow 144-day MA: 5606; Dow 34-day MA: 5643
Dow Times Book Value: 4.23; PTI 89-day MA: 4551
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 393.82; Gold-PTI: 447

Russell opinions and thoughts: I'm impressed with the **Dow's** resistance to the downside -- this despite weakness in the Transports and in the Bonds. I'm also impressed with the continuing strength in my **Primary Trend Index,** which has been milling around near its all-time high (see page 2 chart). Breadth has been poor, but I give more credence to the PTI.

I have been of the opinion that the market is in the process of forming a major top. That's still my number one opinion, but hey, I also have a "back-up" opinion, and it's that the market is now locked into an extended trading range. If the trading range is the answer, then expect stocks and groups to move in and out of favor, a situation wherein it becomes increasingly difficult to make money. Remember that old truism -- "The stock market will do whatever it has to -- to frustrate the greatest number of participants."





There are a lot of factors that suggest that the top of the bull market is in place. But there are a few "rules" that are worth following, and one is that "a trend is taken to remain in force until proved otherwise." So far, we don't have evidence to tell us that the bull market trend has actually been reversed.

So I sit back and I tell myself, "Why sweat it?" If the bull market is still intact then it's only a matter of time before the Dow and the Transports advance above their old highs and the bull market is revived and re-confirmed.

On the other hand, if a bear market began at the May highs then it's only a matter of time (I don't care what the news is or whether Clinton wins or loses) before the Dow and the Transports head down and shatter their July lows.

In the meantime, all the talk, all the fearless forecasts, all the economic analyses, all the thousands of brokerage reports and newsletters -- all amount to naught. The ball is in the hands of the two D-J Averages. And the mystery of the direction of the primary trend will be revealed -- in the market's own good time.

Sundry Comments: Gotham has heated up. *New York* magazine (Sept. 2) features an eye-opening article which reports that apartment prices on New York's Central Park West are rocketing higher, with prices moving into the multi-millions of dollars. When I was a kid, anything on the West Side was considered "undesirable." Times change . . . the latest *Liscio Report* [(201)509-2256] states that "factory orders and shipments are at record highs. New home sales have now surpassed 700,000 for seven consecutive months, the first time this has happened in 10 years. Spurred by a lack of new construction, rents for commercial office space soared more than 10% in the first half of the year, the biggest six-month increase since at least 1980."

Conclusions: (1) With the economy booming, there's no way a sitting president is going to lose the election. (2) The most bullish thing that could happen now would be the Fed boosting interest rates by a full half percent. This would probably satisfy the bond market (which has been discounting higher rates anyway). A rate boost would possibly put brakes on the economy, and, of course, this would make the bond fraternity a lot more comfortable. The stock market loves a comfortable bond market.

INVESTMENT POSITION: My old boss and mentor back in the '60s used to tell me, "Russell, I spend a lot of time thinking about possible mistakes. The reason is this -- the good moves you make in business take care of themselves, it's your bad moves that can sink you."

Those who own stocks during a bull market generally do well, since a broad rising trend magnifies your right moves and tends to bail you out of your wrong moves. Statistics show that during a long bull market roughly 80% of ALL stocks end higher.

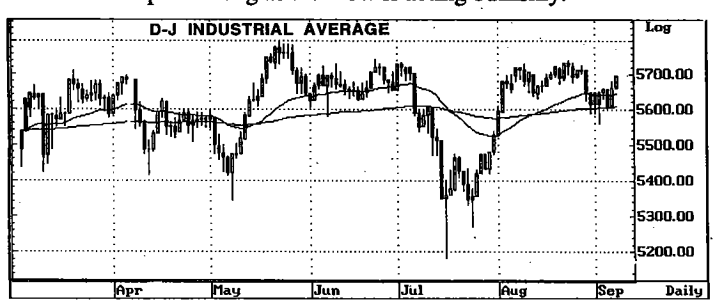
But in a primary bear market owning stocks invariably turns out to be a bad move -- a mistake. Why is this? It's a mistake because roughly 80% of ALL stocks go down in a bear market. Furthermore, you never know whether a bear market is going to be relatively mild or whether it's fated to be a monster. If it's the latter, holding stocks will be the ticket to financial disaster. For instance, during the last primary bear market (1966 to 1974) many stocks lost 75% to 90% of their value, and a long list of companies didn't survive at all.

So far, the stock market isn't acting that badly. Actually, I've been impressed with the market's continuing strength (ah, that PTI). But things can change. So if, and I say IF, the Averages signal a bear market I advise subscribers to move into as liquid a position as possible. This means having most of your assets in safe, short-term vehicles, such as T-bills.

Now please read this carefully -- on May 24, 1996 the S&P 500 hit an all-time high price-times-dividend ratio of over 46 to 1. That's forty-six dollars for every one dollar of S&P dividends. Never in history have investors paid that much for a buck of dividends. Writes *Growth Fund Guide* (Box 6600, Rapid City, SD 57709), "All Price/Dividend ratio peaks were followed by major declines that averaged 41%." Will the May 24 peak be different? Let me tell you, we better hope so! In the meantime, why mess around? I'm staying LIQUID.

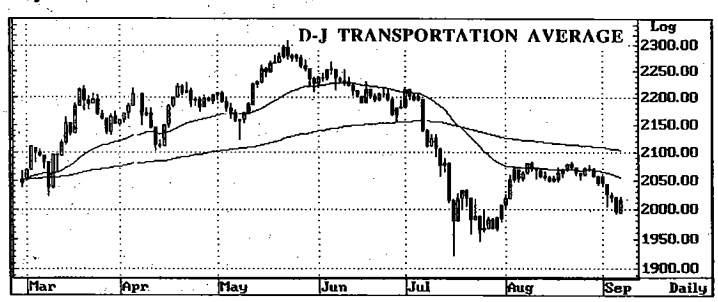
MOVING AVERAGES: The stock market is in a particularly interesting position at this time; for this reason I want to examine a number of key daily charts. One of the most informative methods of analysis consists of comparing the price of an item in relation to a longer and shorter term **moving average.** Comparing a stock or an average with its own previous performance can be an aid in identifying the underlying trend. At the least, moving average studies can tell you what must take place in order for a trend reversal to occur.

The first chart shows the **Dow** along with its shorter-term or 34-day exponential moving average (MA) and its longer-term or 144-day MA. The movement of the 34-day MA above or below the 144-day MA provides buy or sell signals. As you can see, the 34-day MA of the Dow has crossed ABOVE the 144-day MA, and the Dow is constructively above both MAs. Thus, according to this study, the Dow and its two moving averages are in the bullish mode. One thing that bears must now face -- you can't have a market collapse as long as the Dow is acting bullishly.



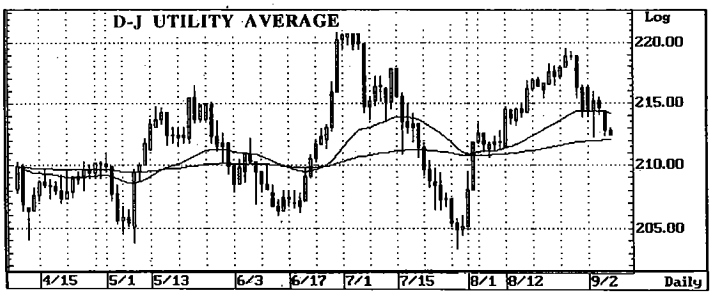
The D-J **Transportation Average** broke below its 144-day MA on July 7. On July 15 the 34-day MA sunk below the 144-day MA,

thus rendering a bearish signal for this Average. Unlike the Dow, the Transports appear weak. They will continue to appear weak as long as they remain below their (now declining) 144-day and 34-day MAs.



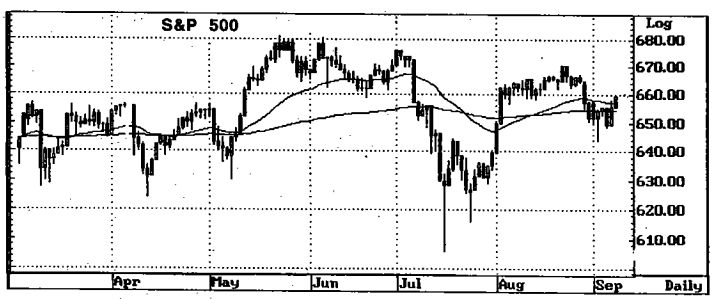
The stronger Dow and the weaker Transports point to the confusing cross-currents in this market. Which Average is pointing the way? Which Average is correct? We simply can't tell -- yet.

The **Utility Average** has acted erratically all during 1996. This average tested the 204-205 level first in May and again in late-July. Next, a rally took the Utility Average to a high for the year, recorded on July 12 at 220.76. As this is written, the Utilities appear to have achieved equilibrium, with the price holding above the 144-day MA but below the 34-day MA. My opinion -- I don't see the Utilities doing anything dramatic in the near future.



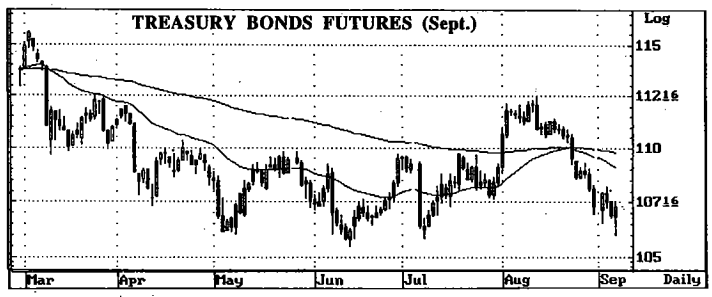
The broad **S&P 500 Composite** has acted a bit weaker than the Dow. But despite its weaker-than-the-Dow action, on Monday (Sept. 9) the S&P rallied ABOVE both its 34-day and 144-day MAs. The critical area for the S&P is the **650-654** zone. As this is written, the S&P is holding above its 34-day MA, and the 34-day MA is in turn holding above the 144-day MA. That represents the bullish mode for all three items. Conclusion: constructive action.

Note: the thin vertical lines represent the highs and lows for each day (as opposed to opening and closing figures). I call these "rejection" lines. For instance, look at the July rejection lines in

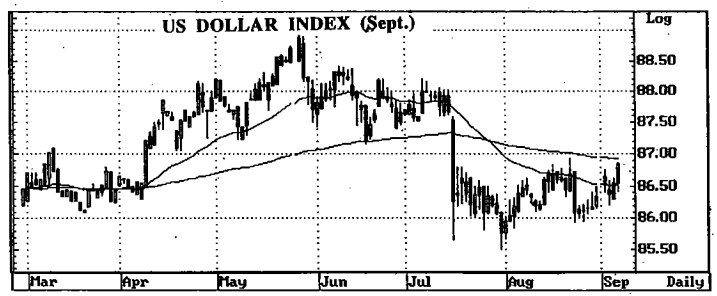


both the Dow and the S&P. These rejection lines rejected the downside. Smaller rejection lines have appeared in September on both of these averages.

The **Bond** futures present an interesting picture, but one not too different from Utilities. Except for the early-August rally, the Bonds have been fluctuating in a trading range. The low for the September futures came in June at just under 106. A downside "rejection" occurred on September 6, as you can see on the chart. The 34-day MA is about to drop below the 144-day MA, and this would place a strong level of resistance in the 108-109 area.



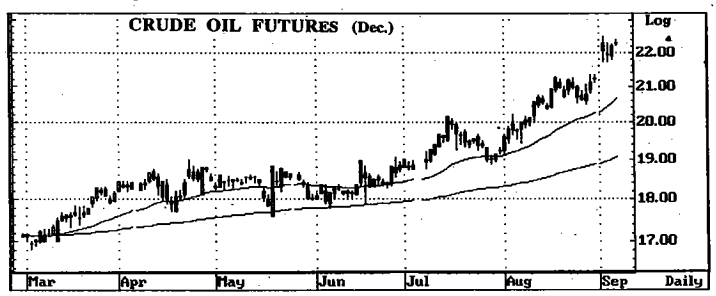
Now let's examine the **US Dollar Index** (which is heavily weighted for the yen and the D-mark). What we have here, following the big July break, is a trading range in the Dollar. The Dollar Index would have to break out to the 87 level before I'd call it bullish, but at the same time I don't see any real weakness. So let's call it neutral.



There's talk of the Fed boosting interest rates by a half-point, which would be a bit of a surprise, coming this close to election time. The Fed may feel, however, that a Clinton win is "in the bag," and that even a boost in rates would not hurt Clinton's chances.

To me, the surprise in the currencies is the strength in the British pound (not shown), which has now climbed to the $1.56-7 area. Why is the pound worth this much compared with the dollar? Darned if I know -- I guess it must be their reserves of North Sea oil. On a purchasing power basis, I continue to think the pound isn't worth much more than a dollar (tourists to Britain, you have my sympathies).

And the great unknown -- oil. Here we see the Crude Futures (December) going up and up. Saddam, the thorn in the side of the West, has tested the US's resolve again, a few missiles from the US, and the result -- no oil coming out of Iraq. Further result -- crude has pushed up to the 22 bucks a barrel level. Rising oil tends to translate into inflation. The sleeper here is the rising world *demand* for oil. And what happens when 30 or 40 million Chinese start trading in their motorbikes for cars?



CHARTS: My old friend, John Carder, has put out an amazing set of historical charts. The charts come in 21 separate volumes. These volumes cover such items as stock history, S&P, breadth, the McClellan Oscillator, bond histories, Advisory Sentiment, currencies, etc. If you want charts going back in many cases 50 years or longer, call (800)347-0157 or outside the US call (303)440-0197.

NOTES & QUOTES: This year an amazing 1.1 million families or 1% of ALL US households will file for bankruptcy. This represents a 26% increase over 1995. What's happening? Easy credit terms, eager banks, and a near-record level of consumer debt

servicing amounting to 17% of total disposable income. Finally, high corporate layoffs and high consumer confidence mean that the unemployed, unwilling to reduce their living standards, run up big debts and then find out that they can't service them.

* *

He's a womanizer, his financial history is suspect to sleazy, half his friends are indicted or in prison, he changes his mind and positions at the drop of a political hat -- so how in God's name can Clinton be re-elected (and it looks almost certain that he will be)? *Time* magazine (Sept. 2) offers seven answers to the mystery: (1) "Clinton's opponents believe he's got people conned: they should know he's a slimeball, but it hasn't sunk in yet." (2) "Americans have become so cynical about politics that they expect their elected officials to be morally compromised." (3) The economy is good, and that's all people want. (4) "Clinton may be re-elected as a guarantor of gridlock." In other words, people are afraid that any change will be a change for the worse, and Clinton has vetoed all change. (5) Dick Morris' strategy, which was to make Clinton essentially a Republican. (6) Bob Dole -- the Republicans put up "a hopeless candidate." (7) Clinton is "the luckiest guy around." He wins the presidency with a minority of the vote, he loses Congress for his party and it ends up helping him, and the opposition party accidentally gives its nomination to a hopeless candidate. **Russell comment:** Personally, I think the answers are: (1) The BIG ONE, which is the good economy. (2) The un-electability of Bob Dole. (3) America's willingness to overlook Clinton's immorality and sleaziness. And finally, (4) there's the contrast between Clinton's "good guy" good looking, cheeriness and Dole's dour, aged, wooden, almost spastic appearance.

Business Week (Sept. 9) has another theory regarding Clinton. The magazine claims that Clinton's defeats in Congress actually worked in his favor. "Throughout his term, the President has been denied policies he sought -- and gotten better outcomes as a result. Aided by a favorable business cycle and a bravura monetary policy by the Fed, Clinton's policy defeats helped spur an economy likely to carry him to victory . . . Take health care. Clinton's reform campaign crashed under its own weight . . . yet the two year debate prodded the private sector into reforms that have cut medical price hikes from 7.5% in 1992 to 3.4% so far this year . . . After Republicans took control of Congress, Clinton resisted their calls to balance the budget by 2002. But his reluctant conversion now allows him to campaign as the election's true proponent of fiscal responsibility."

Clinton and his most successful advisor, Dick Morris, are both adulterers, but at least Morris had the "decency" not to deny it. Wrote Rabbi Wayne Dosick (which explains a lot about Clinton), "The reality is, if we tell the truth, we only have to tell the truth once. If you lie you have to keep lying forever." Does cheating on your wife make a difference in the presidency? George Washington in his first inaugural address stated, ". . . the foundation of our nation's policy must be laid on the pure and immutable principles of private morality." Yet Clinton has the unmitigated gall to run on a "family values" ticket. I liken it to Dracula running for the presidency on the Vegetarian ticket.

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Mysteries: (1) Why does Clinton stubbornly refuse to reveal his medical record? (2) Why is Susan McDougal willing to risk jail rather than tell the grand jury about Clinton's role in Whitewater?

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Trivia Question: When was the last time that the Republicans and the Democrats held their conventions in the SAME city? Answer: 1972 in Miami.

* *

OIL: Petroleum News states that rising capital spending and lowering production costs have put the worldwide energy industry in its best shape of the last 15 years. Increasing exploration and development from the Gulf of Mexico to the Gulf of Thailand is evidence of companies' expectations that they can find oil and gas efficiently and supply the worldwide market, which is growing rapidly. **Russell comment:** It's worth noting that the US now imports around 55% of its oil needs. And you can be sure that Arab world is well aware of this fact. Alternative fuel, anyone?

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Roadsters are the hottest new items in the auto business. But the reviews vary considerably. BMW's "James Bond" roadster, the Z-3, looks good, but those who drive it say it's underpowered (BMW says they will power-up the Z-3 in coming years). The Plymouth "Prowler," looks fearsome, but *USA Today* writes that the Prowler "is a tight pair of jeans: something uncomfortable and impractical that you squeeze into to attract attention and cause a stir. Still somebody who just spent $35,000 could be understandably upset at a car that shakes and rattles, has no useful trunk and little room for passengers, and is less powerful than its aggressive looks suggest." **Russell comment:** I put a deposit down on the upcoming Mercedes SLK, the little two-place roadster with the automatic retractable metal roof. The reviews for the SLK are terrific. The orders are coming in at the rate of 1,000 a day, and Mercedes announces that production is sold out until the second quarter of 1998. Price for the supercharged, four-cylinder SLK is around $40,000. I know one thing -- Mercedes does not bring out lemons. I rode BMW motorcycles for years (great bikes), but when it comes to cars I'm all Mercedes. Major competition for the SLK will be Porsche's new "Boxster."

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Sports and Entertainment: $120 million for Shaquille O'Neal, $38 million for Emmitt Smith (who is now hurt), $43 million for young Tiger Woods (he was just a Junior at Stanford), what's the world coming to? Still, are those prices any different than $20 million a pic for Stallone and Arnold or $12.5 million for Demi Moore and "Striptease," which, so far, has not been a winner? Listen, this is capitalism, and you charge whatever the market will bare (oops, I meant bear). The fact is that sports have become big-time entertainment. The latest entry is Major League Soccer (they call it football outside of the US). All US kids play soccer now (unlike football, people rarely get badly hurt in soccer), and my guess is that soccer will end up as a big sport in America. The complaint is that Americans like high scoring games, and a soccer game where the final score is one-to-nothing drives Americans up the wall or out of the stadium.

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Investment banker Herbert Allen, Jr. of Allen & Co. on what's wrong with the profit-shrinking entertainment industry: "It's a combination of movies that cost too much, executives who cost too much, and marketing costs going into orbit. With too many films being made and not enough money coming in, the film business is basically uneconomic today." Says Robert Daly of Warner Bros., "There are movies we want to make, but until we get the budget down we will not give them the green light . . . How do you say to a Tom Cruise or a Mel Gibson that they are not worth it? It's hard to ask them to take a cut."

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Got a call last week from my old buddy, Wayne Marcus. His family ran Marcus and Co., specialists on the NYSE. Wayne just returned from a six-week trip to Cambodia and Thailand (Wayne, an ex-Marine is a kick-boxing fan, and he says the kick-boxing athletes there are awesome). Wayne's father, Morty, was the NYSE specialist in Beth Steel, Emerson Radio, Crown Cork and a few others (Bessie was his "big" stock, a huge trader during the '50s and '60s). Morty owned a seat on the Exchange as did both Wayne and his brother, Jules. Wayne's seat was bought in 1947 for around $45,000. Jules' seat was bought in the early '50s for around $37,000. A NYSE seat now sells for well over $1 million. Wayne still owns his seat -- not a bad investment. The only thing better would have been a B-25 or a P-51 or a P-38 bought from the government after WW II for the price of a few thousand dollars. Any of these planes would sell for half to a million dollars today.

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Musing: It's taken 50 years to bring common stocks to their current state of popularity. Back in 1945 I used to sit in the boardroom of Bache on 43rd street at Lexington, and I'd watch the "ticker tape" drag by, as session after session produced volume of around two million shares a day. A huge day would be something over three million shares. Today you can see those kind of numbers in a few trades of a single stock.

Of course, in the 1940s Wall Street was still recovering from the trauma of the '29 crash, the '37 crash, and the Great Depression.

None of us in those days, in our wildest dreams, could have envisioned sessions of 300 to over 400 million shares a day.

All of this is fascinating to me, and I wonder -- will we see some traumatic series of events again -- events which will drive the public out of Wall Street and common stocks just as the '29 and the Great Depression drove a generation of "Jazz Age" market participants out of equities. The only thing you can count on in the stock market, noted Charles Dow, is "CHANGE." And that's what makes the markets (at least to me) the most fascinating business in the world.

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Book: I have a hard time getting through most fiction books. I'll get half-way through a book and say to myself, "I'm tired of reading this. The author dreamed up the story, but I can think of stories that are just as good myself, so why go on reading someone else's fantasies? Besides, I'm not learning anything, and when I'm not learning anything I get bored." So my reading usually revolves around what's REAL -- non-fiction. I just finished **"Mindhunter,"** a book written by John Douglas (it's number 3 on the *NY Times'* paperback bestseller list, published by Pocket Star). Douglas was instrumental in starting the FBI's Investigative Support Unit, which is the unit which develops profiles of serial killers. The book is fascinating, the stories are amazing, and it beats any mystery story I've ever read. Douglas studies the crime, studies the victims, studies the entire situation and then develops a profile or what the killer was probably like. His profiles are usually on the button. Extraordinary book, chock full of information from a world utterly foreign to me and most readers.

* *

What classification of music represented the biggest increase in album sales in 1996? Answer: **jazz,** with album sales in '96 (first six months) up 52% over '95 -- 9.3 million jazz albums were sold in the first six months of '96. I note that Minton's Playhouse in Harlem is undergoing a makeover, and will once again be presented as a center for jazz. But I doubt that it will be the same as it was in the early-'40s, when I used to visit it (I would sneak out of the house at midnight and head up to Harlem, then return around 5AM -- and my parents never knew about it). Back in the '40's and early '50s top musicians who were playing in NYC used to head to Minton's after their shows to listen to each other and sit in on all-night jam sessions. Those sessions included some of the greatest jazz ever, but unfortunately, very little of those sessions were ever recorded.

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It looks as though the lawyers are going to hit the tobacco companies from now to eternity. In Dade County, Florida, two attorneys representing Patty Young (a flight attendant) and possibly 7,000 plaintiffs, are suing as many as 50 cigarette companies on a second-hand smoke charge. They are suing for $45 billion (that's billion with a B).

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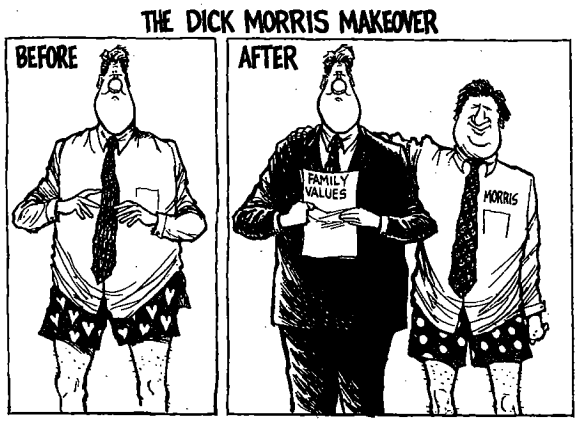
Dick Morris, the man who put Clinton into the "family values" shtick, has been caught in a year-long affair with a prostitute and now he, like so many other Clinton insiders, is history. As I've said so many times, it's the hypocrisy of Clinton and his cohorts that's galls me. Clinton and Morris touting family values, it's like John Gotti campaigning for gun control.



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I was saddened last week to hear of the death of Paul Penna, CEO of Agnico-Eagle Mines Ltd. Paul was a good friend, generous and honest. Paul would visit me usually twice a year, and he was a great believer in Agnico, having nursed the company, almost from its inception, to its position as one of the premier gold producers in Canada. Paul held to old-fashioned values, and he always warned me against those little holes in the ground that promoters laughingly called gold mines. Here's to you Paul -- an honest, decent, God-fearing man.

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It looks increasingly as though the deadline for the European Monetary Union will be pushed further out. France and Italy are chaffing under the pressure of stagnating consumption and rising unemployment. In France, for instance, thousands of farmers erected blockades in the early morning to block deliveries of beef in protest over falling beef prices. This is a foretaste of general labor unrest, and politicians are growing white-knuckled over the strictures to entering the European Monetary Union. Interestingly, of the 15 members of the European Union, only Ireland, Denmark and tiny Luxembourg meet the Maastricht Treaty's criteria on budget deficits and public debt. And any monetary union that excludes Germany and France would be worthless.

Single Currency: New EU Doubts

Dissent in Italy and Germany

Compiled by Our Staff From Dispatches

ROME — A growing number of prominent Europeans are raising doubts about the wisdom of going forward with European monetary union.

In recent days, Italian business and political leaders and a leading German economist have all questioned the wisdom of going ahead with the plan to create a single currency for most members of the European Union.

In Italy, it was suggested that the country should solve its unemployment problem before cutting its budget deficit, strong comments in a nation that has traditionally been one of the biggest supporters of the proposed European monetary union planned for 1999.

Cesare Romiti, chairman of Italy's largest private-

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The Democratic Convention as the *WSJ* saw it: "Paralyzed TV actors, gunned-down mothers, a little boy dead of tainted hamburger, children living next to waste dumps, and finally, Vice President Gore's sister, her life extinguished by the tobacco industry. All this was prelude to the acceptance speech by Bill Clinton, the man whose lasting contribution to the language of politics may be 'I feel your pain'." **Russell comment:** Clinton's "the era of big government is over" was punctuated in his speech by a long list of new government spending plans. If Clinton gets a second term, I think we're going to see BIGGER government (unless Congress stops him).

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It's happening. China is becoming a major player in world markets. Two examples: China over the next 10 years will add 15,000 megawatts of electricity, equal to the entire power capacity of New England. In the last two years China has added 20,000 megawatts, making it the fastest-growing electric power base in the world . . . with their policy of one child per family, China is raising a generation of "little emperors." Chinese parents now buy $5.9 billion in toys and clothes for their children, only slightly less than the amount US parents spend on their own kids.

COLUMN ONE

An Economic '800-Pound Gorilla'

■ China is consuming and selling in huge quantities. It is moving markets, cowing the competition and inspiring a rush of foreign suitors.

profits and Western traders were suffering, having bet that prices would fall sharply due to new mines coming on line.

A tiny pink worm and a bout of bad weather forced China into the cotton market in a big way in the spring of 1995, sending world prices to their highest level since the U.S. Civil War. In California's Imperial Valley, cotton farmers, who export 80% of their crop,

Wake up, world. From cotton to copper to credit cards, the Chinese are consuming and selling in such huge quantities that they are moving markets, cowing the competition and inspiring a rush of foreign suitors. In numerous arenas, China has already emerged as the world's No. 1 player.

"When McDonald's starts selling [pork burgers], the mar-

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Sports Legends: Rookie pitcher Matt Beech after Padre Tony Gwynn batted four-for-four against him, bringing in both runs in the Padres win against Philly: "I grew up watching Tony Gwynn. I have a lot of respect for him. I'll be telling my grandchildren I faced him. I just wish I could tell them I got him out."

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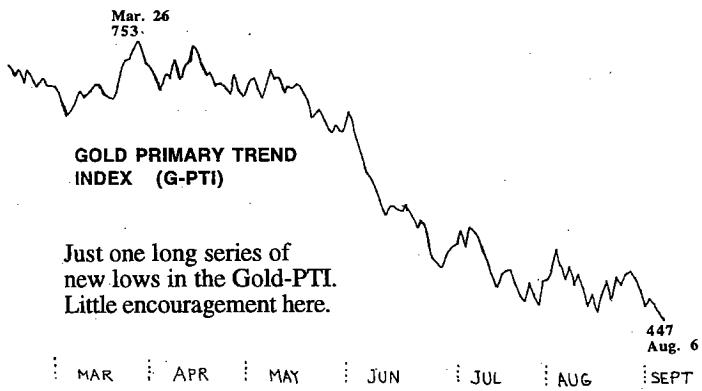
You wonder why **Hollywood** is pulling its collective hair out? Listen to these figures: "Striptease" cost $40 million. Gross so far -- $35 mils. "The Fan" cost $55 mils. Gross so far -- $25 mils.

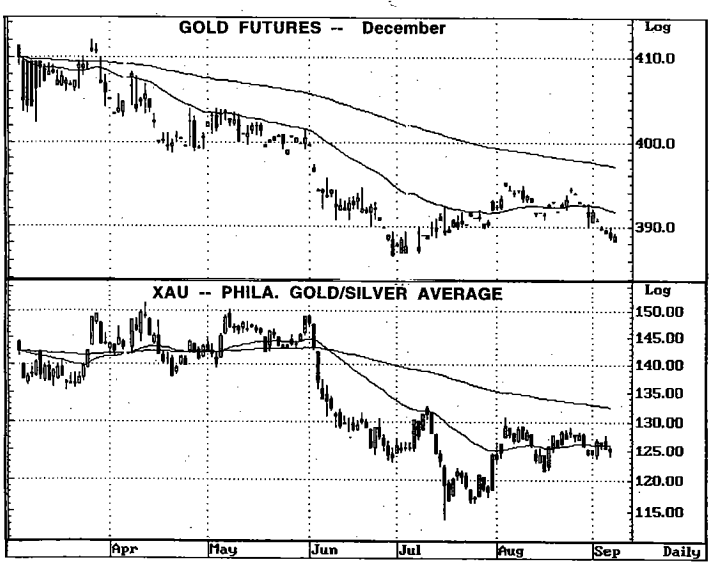
"Escape from LA" cost $50 mils. Gross so far -- $24 mils. "Multiplicity" cost $40-50 mils. Gross so far -- $25 mils. "The Phantom" cost $40-50 mils. Gross so far -- $18 mils. And so on. No wonder every studio wants a blockbuster -- to make up for the dogs.

And then there's **fashion.** Isetan, the Japanese colossus, is asking a NY court for permission to sue the co-chairmen of Barneys, Bob and Gene Pressman, for $170 million in unpaid personal loans. The suit would drive the two executives into personal bankruptcy. The once mighty Barneys store is already in bankruptcy over unpaid loans to Isetan.

Democratic Convention
This evening's Keynote Speaker: the gorilla that rescued the kid who fell into the primate exhibit!...
I knew we'd top the Republican Convention!...

BALANCE: A political expert was asked what kind of person Ross Perot would need as a running mate. It was decided that it would have to be a person who would provide some balance to the ticket. The answer -- **a tall man with no ears who is sane.**





GOLD: My Gold-Primary Trend Index is, uh, just not encouraging. The next chart shows gold, the metal, sinking below its two moving averages. The support on the December Gold futures comes in at 386, and that level had better hold (I think it will). With gold sliding, the Phila. Gold/Silver Average (XAU) is doing surprisingly well. But how well can the gold stocks do if the metal continues to slide?

NEW: I started Dow Theory Letters in 1958. Back then there were about six other investment reports in existence. During the late '60s and early-70s dozens and dozens of new advisories appeared. Along came the great '73-74 bear market, and half or more of the advisories exited the field. In the '80s and '90s history repeated, and hundreds of new advisories materialized. Which is about where we are now.

Today, people ask me, "Russell, you've been in the advisory business for 38 years -- longer than anyone else. What do you call yourself?"

I answer, "I call myself 'a survivor'."

So last year guess what? I started a new business. And the new business has been doing very well. Many of my subscribers have joined. But there's one stricture -- to join you must have assets of $1 million or more (and that can include your home and real estate and other assets). If you're interested in "what Russell is up to now," drop a line to La Jolla Trading, Box 229, La Jolla, CA 92038 and ask for information. If nothing else, you'll get a free education. No obligation, no one to bug you, no follow-up telephone calls. Just info. Be my guest, but be sure you're qualified.

LATE NOTES, THOUGHTS: Hiding somewhere in a thousand charts and ten thousand economic statistics is a multi-trillion dollar secret -- the direction of the primary trend of the stock market. I've read economic essays, advisory publications and predictive theories ever since the mid-1940s. In retrospect, as far as being the key to investing is concerned, most of them don't add up to much. They're not that much help.

What does help? An appreciation of the huge value of knowing whether you're in a bull market or a bear market. Right now, for the first time in years, I think there's a real question regarding the primary direction. That's why I've placed a question mark in the "Investment Position" box.

My Primary Trend Index is milling about within a few points of its all-time high (it could be at a new high by the time you receive this report). The PTI action, to me, is one of the biggest plusses in the market. But as this is written, the PTI is only 20 points above the high it made three months ago on June 5. It's rate of climb is ebbing. Time to monitor its action very closely.

The advance-decline ratio has stalled well below its June 22 record high. The lagging action of the A-D ratio tells us that a lot of stocks are in trouble.

Probably most important, the D-J Industrials and Transports are still fluctuating (sometimes wildly) in "no man's land" between their 1996 highs and their '96 lows.

The stock market hates to signal its next move. And the gods of Wall Street love to frustrate investors. But 25 years of experience tell me that the PTI cannot be fooled, or I should say it can't be fooled for long. Nor can a Dow Theory signal, one way or the other, be held off forever.

In due time, the primary direction of the market will either be re-confirmed as bullish -- or we will witness an historic reversal to the downside. In the meantime, stocks mill about in a zone characterized by the most extended period of extreme-overvaluation in stock market history.

NEXT MAILING: Sept. 25, 1996